**Background Document – Appendix 1**

## Extract from June MTFS

### 4.1 Government Financial Response to the COVID 19 pandemic for Councils

4.1.1 The 2020 budget announced by the Chancellor on the 11 March included the creation of a COVID-19 response fund. This was to ensure the National Health Service (NHS) and other public services had the resources they needed to tackle the impacts of COVID-19. Initially set at £5billion, it was to be used to fund pressures in the NHS, support local authorities to manage pressures on social care supporting vulnerable people and help deal with pressures on other public services. At the time of setting the budget the chancellor said the size of the fund will be reviewed as the situation developed.

4.1.2 These measures also included help for businesses and residents as the increased threat of COVID19 became apparent on these groups and the budget included the following:

- Hardship Fund of £500 million (nationwide), to be paid by increasing council tax support (CTS) for those already receiving the benefit and in March the Council received £779K to fund the scheme for Stevenage residents.
- Support to businesses – including business rates relief measures which saw reliefs extended from 50% to 100% for smaller businesses and extensions to other leisure and hospitality businesses. These reliefs do not include rates paid by councils which are exempted from the reliefs.
- To support small businesses in meeting financial difficulties arising from COVID-19, the government announced £2.2billion of funding to provide £3,000 to around 700,000 businesses currently eligible for Small Business Rate Relief (SBRR) or Rural Rate Relief, to help meet their ongoing business costs. This was to be administered by local authorities and the value per business was later increased, (see also para.4.1.4)
- The Chancellor also announced the start of the Comprehensive Spending Review (CSR) process, to be concluded in July which would set out detailed spending plans for public services and investment, covering day-to-day budgets for three years from 2021/22 to 2023/24 and capital budgets up to 2024/25.

4.1.3 On the 17 March Robert Jenrick, the Housing, Communities and Local Government Secretary announced £3.2Million to support rough sleepers or those that are of risk who need to self- isolate. Authorities were able to claim costs of based on the number of rough sleepers counted during the Autumn 2019 snapshot which for SBC was £11,500. However as shown in paragraph 4.7.1, the Council’s costs have exceeded this to date.

4.1.4 On the 17 March, the Chancellor extended the range of financial support across the economy as the national COVID 19 impact worsened. These measures included grant and funding arrangements:

- The Chancellor stated that, if insurance policies cover pandemic situations, then the government's directions to date are sufficient for insurers to pay out, In response to views that only advising businesses to close is insufficient for a successful insurance claim and;
- 100% retail relief will be extended to all businesses in retail, hospitality and leisure, regardless of their business rateable value. These businesses to be offered a £25,000 cash grant.
- The £3,000 cash grants announced in the Budget for businesses receiving SBRR to be increased to £10,000.

4.1.5 On the 23 March, the government issued a press release on extra protection for businesses, with a ban on evictions for commercial tenants who miss rent payments. The measures to facilitate this were included in the emergency Coronavirus Act 2020 and no business would be forced out of their premises, if they miss a payment in the next three months. A similar stance has been taken by the government on private and social tenants.

4.1.6 On 24 March, the Secretary of State held a conference call with Chief Executives across local government. Following that, MHCLG distributed a note which stated that the government would pay £3.4billion of grants to local authorities on Friday 27 March and that the grant would cover costs and improve cash flows for Councils;

- The £1.6billion of funding allocations (previously announced), as part of the COVID-19 support, to compensate local authorities for losses across all their services
- The £1.8billion of Section 31 grants that would otherwise be paid based on January 2020 NNDR1 paid in full rather than across 12 instalments during 2020/21.

4.1.7 Also on the 24 March the Government announced the Hardship Fund details and allocations. The principle of the funding was that it should be used to reduce the council tax liability for individuals in an area; and Councils may also wish to use some funding to deliver increased financial assistance through other support mechanisms. The government indicated that the fund should be used to reduce the liability of those receiving working age council tax support by £150 in 2020/21. Where a local council taxpayer had an existing liability of £150 or less, this would reduce their council tax liability to nil. Where liability is already nil, there would not need to be any change.

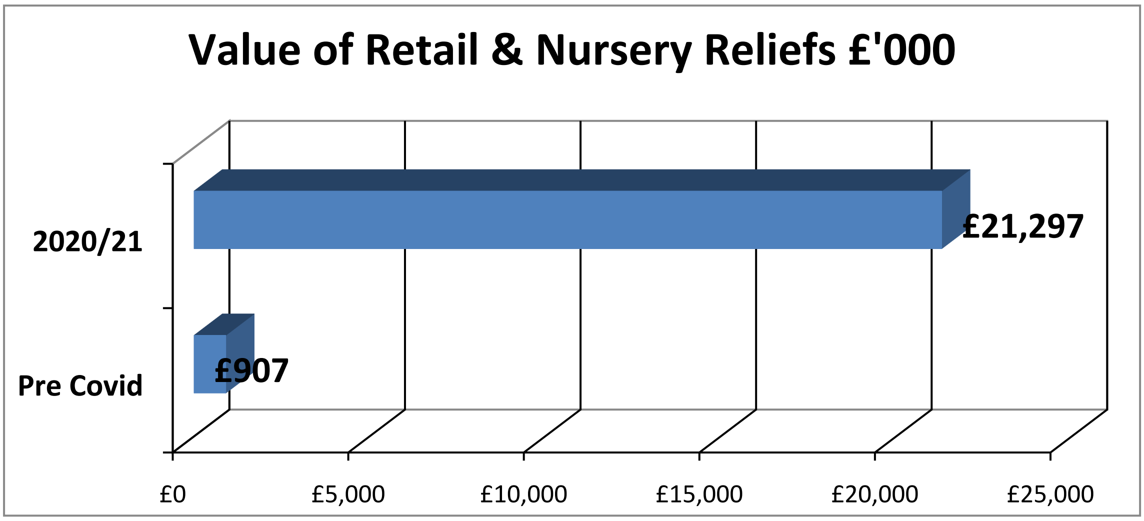
4.1.8 The government also announced that Councils will be allowed to defer £2.6bn of business rates payments to central government. The announcement did not contain precise details, but the national total suggested that the first three months' payments of the business rates Central Share could be deferred. Nationally, the 9% due on each of 30 April, 19 May and 22 June in respect of the Central Share is £0.877billion, with three months' equivalent being £2.630bn.

4.1.9 The Government announced on the 2 May 2020, a further grant scheme to help those businesses which were not able to apply under the scheme set out in paragraph 4.2.2 of this report. The funding was set at 5% of the previous business grant allocation, which for Stevenage equated to £572K. The guidance was published on the 13 May and the CFO and Shared Revenue and Benefits Manager are developing the scheme based on the guidance and propose to get the grants paid as soon as is practically possible.

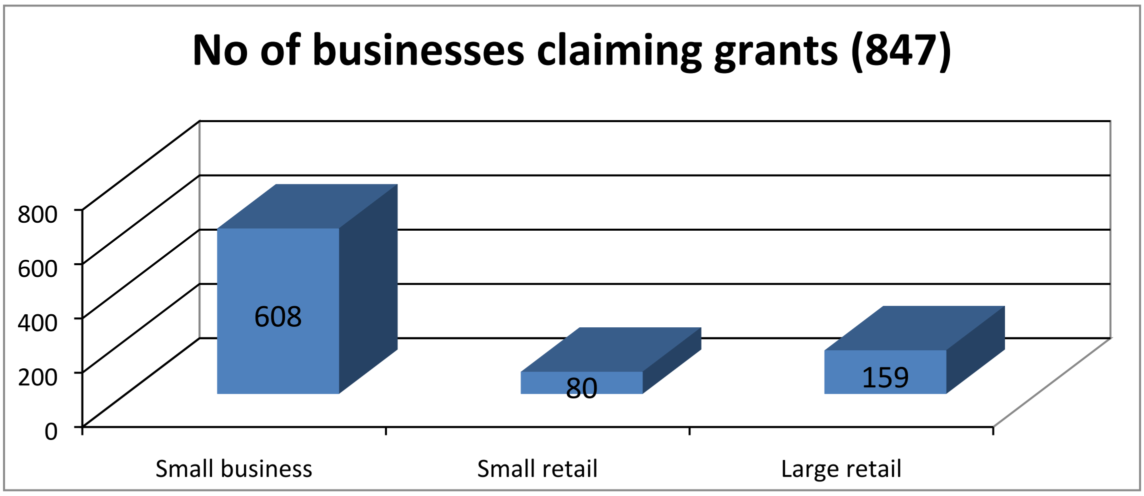
4.1.10 The government has also announced a number of initiatives to help businesses through the use of business loans administered by government or the banking institutions. These were set out in the May COVID 19 Executive report.

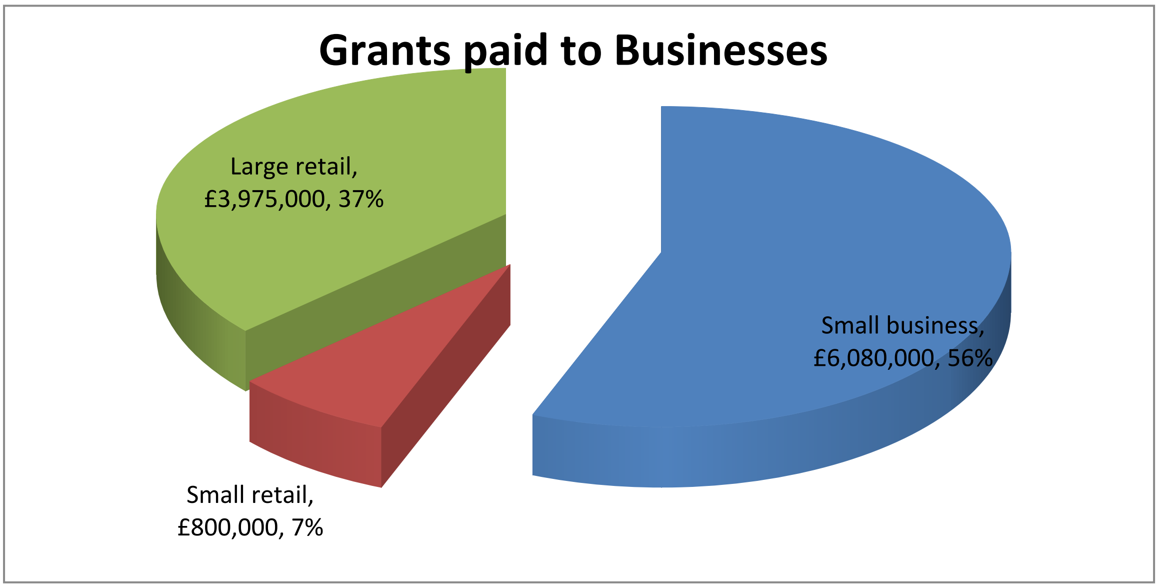
**4.2 The Impact of funding on Stevenage Businesses, residents and Council**

4.2.1 The extension to the Business Retail Relief scheme has meant a significant increase in the number of businesses not having to pay 2020/21 business rates. The original retail relief estimated pre-COVID was £907K, based on 50% retail relief for smaller businesses. This was extended to a 100% relief in the budget speech and announcements made on the 17 March lifted the cap on the rateable value of a premise. In total this meant a further £19.6Million of reductions could be given to Stevenage Businesses as shown below and 96% of reliefs were applied prior to the commencement of the 2020/21 financial year.




4.2.2 The government initiative to support for small, retail and hospitality businesses gave grants of £10,000 (for those in receipt of small business rate relief) and grants of £10,000 or £25,000 for retail businesses depending on their size. The Council received funding of £11.456Million on the 1 April to administer to a potential 927 businesses. The caveat to the scheme was that state aid rules* applied and businesses had to meet the regulations as set out by the Department for Business, Energy and Industrial Strategy (BEIS). These regulations were amended and clarified a number of times. As at the 15 May 2020, 847 businesses had received £10.9Million. The Council has been continuing to seek to contact businesses who have not yet claimed to encourage them to do so. The position is summarised in the two charts below.




**state aid rules relating to European Law mean that no company can receive for the SBRR €200,000 or approx.£180,000/ or Retail & Leisure grant €800,000 or £720,000 in business grants if they have multiple units nationally.*

4.2.3 A letter sent to Councils on the 23 March setting out further details about these grant schemes indicated that in addition to covering the full cost of the grants, government recognised that administering local authorities would be eligible for New Burdens funding and that assessment and funding would be forthcoming at a later date. No separate funding has been received and it is not yet clear whether this was included in the two tranches of COVID funding distributed to date.

4.2.4 On the 24 March the government announced the Hardship Fund allocations, (£779K for Stevenage) to deliver the scheme. The SBC CTS scheme for working aged claimants is based on 91.5% of their council tax liability (so those on maximum benefit will only pay 8.5% of their council tax bill or

£155.36 on a Band D property), pension aged claimants are assessed on a 100% of their council tax liability, so on maximum benefit will pay nothing.

4.2.5 There are currently about 3,570 working aged claimants (WAC) would receive £425K of the fund an average of £119 per claimant, which would leave just £354K for other hardship cases.

4.2.5 To administer the scheme a software update is required to amend the benefit rules on the Council's system. However despite discussions taking place between the Council's software provider and MHCLG this 'fix' still is not working and is not likely to be implemented until June. However those in receipt of CTS are not being sent arrears letters.

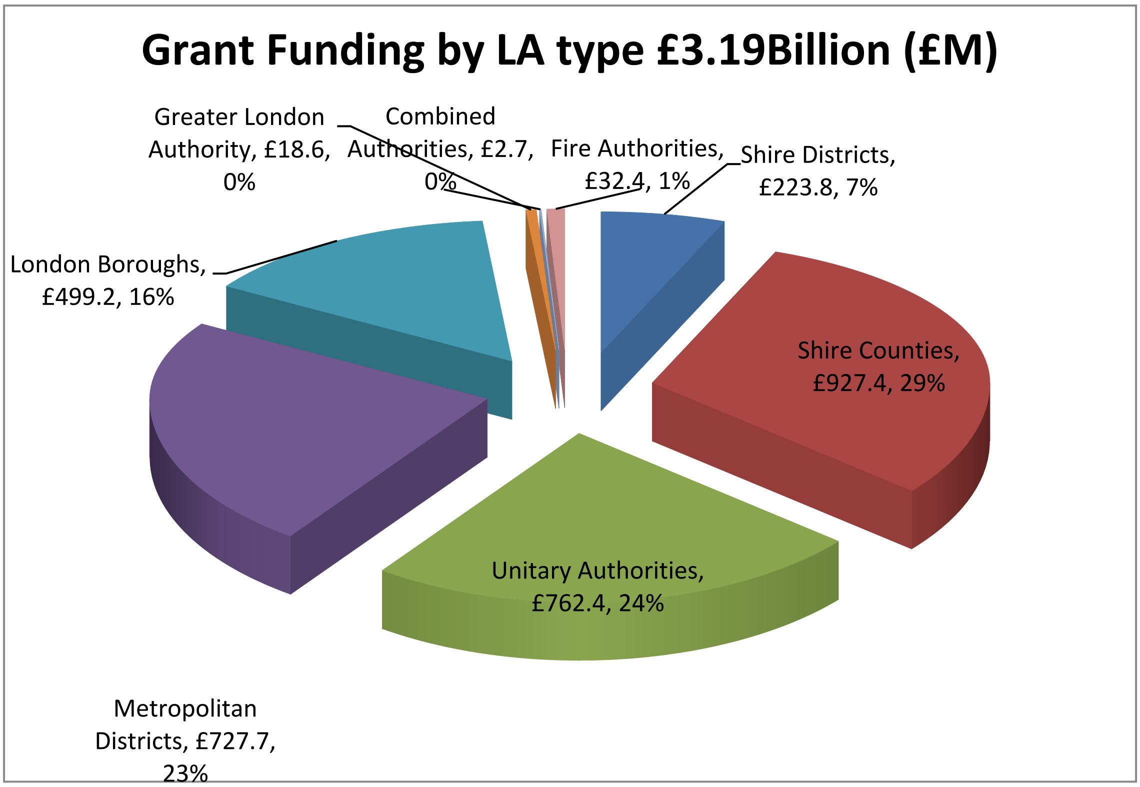
4.2.6 The government's measures to defer cash flow pressure (para 4.1.6) that might arise for Councils meant for Stevenage:

- The Council received £1.150Million on 27th March for pre COVID 19 S31 reliefs for businesses, instead of this being paid in 12 month instalments in lieu of raising business rates. But, the level of S31 reliefs increased by £19.6Million so this did not offset the cash flow pressure. The additional S31 reliefs are now due to be given to Councils in instalments starting on 15th May.

- Deferral of just over £6Million for the government's central share of Business rates for the period April to June payments. These payments are due in the 'second half of the year', however the precise timing has not yet been advised by the government.

4.2.7 The government has announced two tranches of funding for the Council, the first tranche totalled £45,305 with District Councils receiving only 0.61% of the overall £1.6Billion national funding or 52pence for every resident in Stevenage. Following significant lobbying of central government, a second tranche was announced on the 28 April 2020.

4.2.8 The second funding allocation for Stevenage was £871,563 out of £1.59Billion nationally, with District Councils receiving a much larger share of the funding than previously, with the County Council share reducing. The share of funding for Districts increased from 0.61% to 13.43% between the first and second tranches of funding. However as discussed in section 4.3 to the report, this funding does not cover the losses recorded to date by the Council or any lag as a result of a potential prolonged recovery phase for the economy.




4.2.9 The announcement on the 28 April also confirmed that the Review of Relative Needs and Resources and 75% business rates retention will no longer be implemented in 2021/22. This was to enable Councils to focus on meeting the immediate public health challenge posed by the pandemic.

4.2.10 Auditing regulations for the Council's accounts have also been changed. The following amendments to the statutory audit deadlines for 2019/20 for all local public bodies apart from health service bodies have been made:

- The publication date for final, audited, accounts will move from 31 July for Category 1 authorities and 30 September for Category 2 authorities to 30 November 2020 for all local authority bodies.
- To give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June (for Category 1 authorities) and July (for Category 2 authorities) has been removed. Instead local authorities must commence the public inspection period on, or before, the first working day of September 2020.

4.2.11 A summary of COVID 19 funding is summarised in the table below, this is as at 15 May 2020.

| Funding | Council £'000 | Businesses £'000 | Council Tax Payers £'000 | Total £'000 |
|---|---|---|---|---|
| Rough sleepers | £11.5 | | | £11.5 |
| Covid 19 tranche 1 | £45.3 | | | £45.3 |
| Covid 19 tranche 2 | £871.6 | | | £871.6 |
| Retail & Nursery Reliefs | | £21,297.0 | | £21,297.0 |
| Grants to Businesses | | £11,456.0 | | £11,456.0 |
| Hardship Fund | | | £779.0 | £779.0 |
| Total | **£928.4** | **£32,753.0** | **£779.0** | **£34,460.4** |

### 4.3 Impact on General Fund Financial Resources

4.3.1 At the outset of the pandemic it was apparent to Stevenage and many other Councils that there was likely to be an immediate adverse impact on the Council's financial position, in particular relating to, reduced income from fees and charges and increased homeless costs. The losses have been modelled but it is not possible for officers to categorically determine the potential depth and lasting impact, at this stage in the year.

4.3.2 Economists have commentated that the impact of the COVID 19 pandemic will probably go beyond 2020/21. The Bank of England reported this could lead to the 'sharpest recession' on record, reporting that the coronavirus impact would see the economy shrink 14% this year, based on the lockdown being relaxed in June. Scenarios drawn up by the Bank of England to illustrate the economic impact, stated that Covid-19 was, "dramatically reducing jobs and incomes in the UK". Bank governor, Andrew Bailey, described the downturn as "unprecedented", and said consumers would remain cautious even when lockdown restrictions are lifted.

**Extract from September MTFS**

## 3 BACKGROUND

3.1 This is the second update of the MTFS this financial year, the first being the **Coronavirus Recovery Plan** to the June 2020 Executive. The June report outlined a number of actions that needed to be taken to ensure the resilience of General Fund balances. This included the use of ring fenced receipts, rather than revenue resources and the holding of some expenditure. The June report also only dealt with the in- year impact of COVID and did not project any future year losses.

3.2 A summary of the measures approved by Members in the June Executive report which were recommended to improve the resilience of the General Fund are summarised in the Table below.

| **Options £'000** | **2019/20 £** | **2020/21 £** | **2021/22 £** | **Total £** |
|---|---|---|---|---|
| **COVID impact on General Fund:** | | | | |
| Losses | £184 | £3,999 | £0 | **£4,183** |
| Council Tax | £0 | £0 | £207 | **£207** |
| Business Rates | £0 | £0 | £455 | **£455** |
| Total | **£184** | **£3,999** | **£662** | **£4,845** |
| **Funding Options:** | | | | |
| Government grant | £0 | £928 | £0 | **£928** |
| Use of Regeneration receipt | £1,218 | £508 | £0 | **£1,726** |
| Hold Capital Expenditure | £0 | £125 | £0 | **£125** |
| Hold vacant posts | £0 | £152 | £0 | **£152** |
| Hold spend budgets | £0 | £464 | £95 | **£559** |
| Remove approved growth budgets (part) | £0 | £50 | £0 | **£50** |
| Use allocated reserve (NDR 2020/21 gains) | £0 | £455 | £0 | **£455** |
| Underspend 2019/20 | £812 | £0 | £0 | **£812** |
| Unidentified- under review | £0 | £37 | £0 | **£37** |
| **Total** | **£2,030** | **£2,720** | **£95** | **£4,845** |

3.3 At the time the June report was written only two funding tranches had been announced by the government, this report will update Members on the further funding received and also a review of the measures taken and whether they should remain in force. This report will also look at any potential future year losses as a result of COVID.

3.4 This report will update the inflation, pressures and income assumptions in the 2019 MTFS update, reported to the Executive on 11 September 2019.

3.5 This report will make assumptions about future Local Government spending reviews. Just as in the 2019 MTFS update, there remains considerable financial uncertainty for Local Government. The Fair Funding review implications (due to be implemented for 2020/21 but subsequently delayed) remain unclear, alongside any changes to business rates such as growth resets, level of council tax rises and lastly the future of New Homes Bonus.

3.6 The Chancellor announced that as a result of the impact of COVID on local government, (28 April 2020) that the Review of Relative Needs and Resources and 75% business rates retention will no longer be implemented in 2021/22. This was to enable Councils to focus on meeting the immediate public health challenge posed by the pandemic. However the announcement also explained *that the government will continue to work with councils on the best approach to the next financial year*, including how to treat accumulated business rates growth and the approach to the 2021/22 local government finance settlement. There has been no clarity about what this means.

3.7 In addition this financial uncertainty, there are other potential risks for Councils in relation to BREXIT, future continued funding of new burdens e.g. from the Homeless Reduction Act and the impact of Universal Credit (with the potential of many more UC claimants with any COVID driven recession), on the ability to recover historic benefit overpayments and the impact of the removal from the General Fund.

3.8 Based on the factors above the report will identify any adjustments required to the Financial Security targets to address those financial impacts on the General Fund.

**Extract from September MTFS**

**4.2 The Economy and Government proposals for Funding Local Government**

4.2.1 In the last 2019 MTFS Strategy there was considerable uncertainty around BREXIT and the Bank of England commentary in their January 2020 update, prior to the COVID pandemic, was that UK GDP growth was modest in 2019 and is estimated to have been around zero in Q4. This was due to slower global growth and elevated Brexit-related uncertainties. In the Bank of England annual reassessment of supply-side conditions, the MPC judged that potential supply growth has also slowed over the past year.

4.2.2 However the impact of COVID on the economy has been cited as being felt beyond 2020/21 and the Bank of England reported this could lead to the 'sharpest recession' on record, reporting that the coronavirus impact would see the economy shrink 14% this year, based on the lockdown being relaxed in June. Scenarios drawn up by the Bank of England to illustrate the economic impact stated that Covid-19 was, "dramatically reducing jobs and incomes in the UK". Bank governor, Andrew Bailey, described the downturn as "unprecedented", and said consumers would remain cautious even when lockdown restrictions are lifted.

4.2.3 In June, The Bank of England MPC voted 8-1 to increase the size of its bond-buying programme approving the pumping of an extra £100Billion into the UK economy to help fight the "unprecedented" coronavirus-induced downturn. However, they said there was growing evidence that the hit to the economy would be "less severe" than initially feared. The Bank's Monetary Policy Committee (MPC) also kept interest rates at a record low of 0.1%.

4.2.4 The bank approved this just days after Bank's Governor, Andrew Bailey said policymakers were ready to take action after the economy suffered its biggest monthly contraction on record. The Bank also said more recent indicators suggested the economy was starting to bounce back.

***Minutes from the MPC's June meeting*** *said: "Payments data are consistent with a recovery in consumer spending in May and June, and housing activity has started to pick up recently."* However, Mr Bailey warned that the outlook for the economy remained uncertain. He said: *"We don't want to get too carried away by this. Let's be clear, we're still living in very unusual times."* The minutes added: "While recent demand and output data had not been quite as negative as expected, other indicators suggested greater risks around the potential for longer-lasting damage to the economy from the pandemic

4.2.5 The UK economy shrank by 20.4% in April, while official jobs data showed the number of workers on UK payrolls fell by more than 600,000 between March and May. Scenarios drawn up by the Bank suggested the economy could shrink by 25% in the three months to June and in fact the impact was measured at 24.5%.

4.2.6 The Bank of England has implemented extra monetary stimulus or quantitative easing (QE) – this will raise the total size of the Bank's asset purchase programme to £745bn to support financial markets and underpin the recovery. This outweighs previous QE initiatives as shown below.

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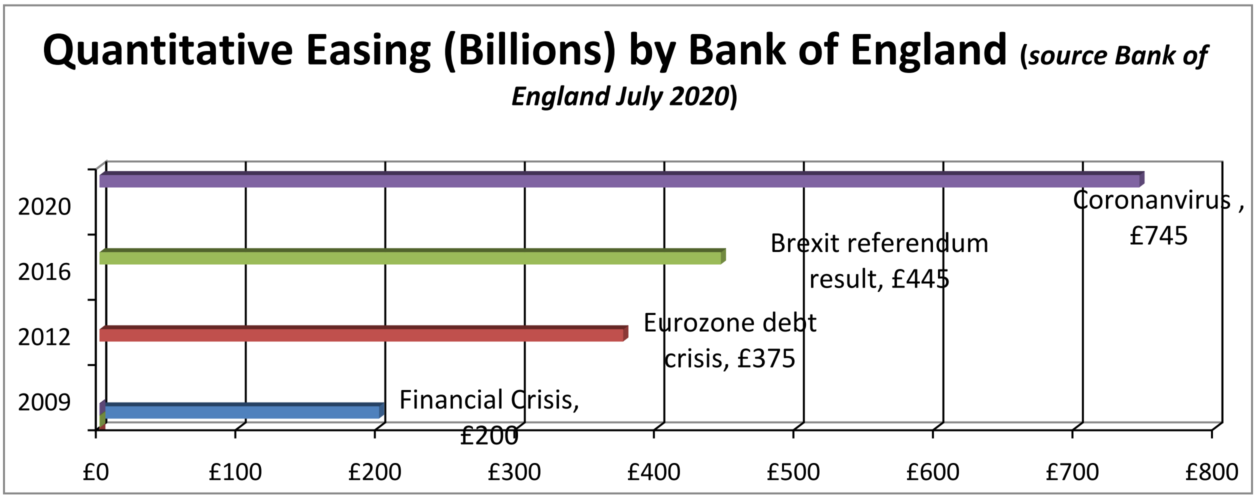



4.2.7 This repayment of QE and the impact of Coronavirus on the economy, on jobs and the council are likely to be beyond 2020/21 and will impact on the government ability to fund public spending including financial settlements for Councils.

4.2.8 The MTFS report to the June Executive outlined some of the government support for businesses, of which the Stevenage Borough Council (SBC) administered to businesses, grants of £11.5Million and £21.5Million reductions in business rates payable in the current financial year.

4.2.9. The Government also committed to helping councils face the continuing pressures of the pandemic, providing £3.8Billion of grant funding, including a £600Million Infection Control Fund, and over £5Billion of cash flow support. Then on 2 July, the Secretary of State announced a new set of support measures, including:

- An 'income guarantee scheme; in recognition of the impact on income from sales, fees and charges. Councils will absorb the first 5% of all relevant irrecoverable losses compared to budget, with the Government compensating councils for 75 pence in every pound of loss thereafter. By introducing a 5% deductible, the Government is accounting for an acceptable level of volatility, whilst shielding councils from significant losses
- Changes enabling local authorities to spread their council tax and business rate deficits for 2020/21 over three years rather than the usual one;

4.2.10 However, there are a number of exemptions cited to this support it does not cover HRA losses, leisure provider income losses or rental income and the LGA has published that the funding required is in the region of **£9.6Billion for councils** for 2020/21.

4.2.11 Moving to funding the public sector, the government has set out the position for the next spending review. The review will set UK Government departments' resource budgets for the years 2021/22 to 2023/24 and capital budgets for the years 2021/22 until 2024/25, and devolved administrations' block grants for the same period government has borrowed.

4.2.12 The Chancellor outlined that the Comprehensive Spending Review is the:

*'opportunity to deliver on the third phase of our recovery plan, where we will honour the commitments made in the March Budget to rebuild, level up and invest in people and places spreading opportunities more evenly across the nation'.*

4.2.13 The Government has confirmed that the next business rates revaluation will take place in 2023, and called for evidence for a wider review of the rating system. This comes after it was announced in May that the business rates revaluation in 2021 would be postponed, but an exact time for when it would be rescheduled was not revealed until July 2020.The two-year delay means the next revaluation will take effect in April 2023, and to reflect the impact of Covid-19, this revaluation will be based on property values as of 1 April 2021.

4.2.14 The Chancellor also stated that in the interest of fairness , restraint in future public sector pay awards, meaning across this year and the spending review period, public sector pay levels retain parity with the private sector.

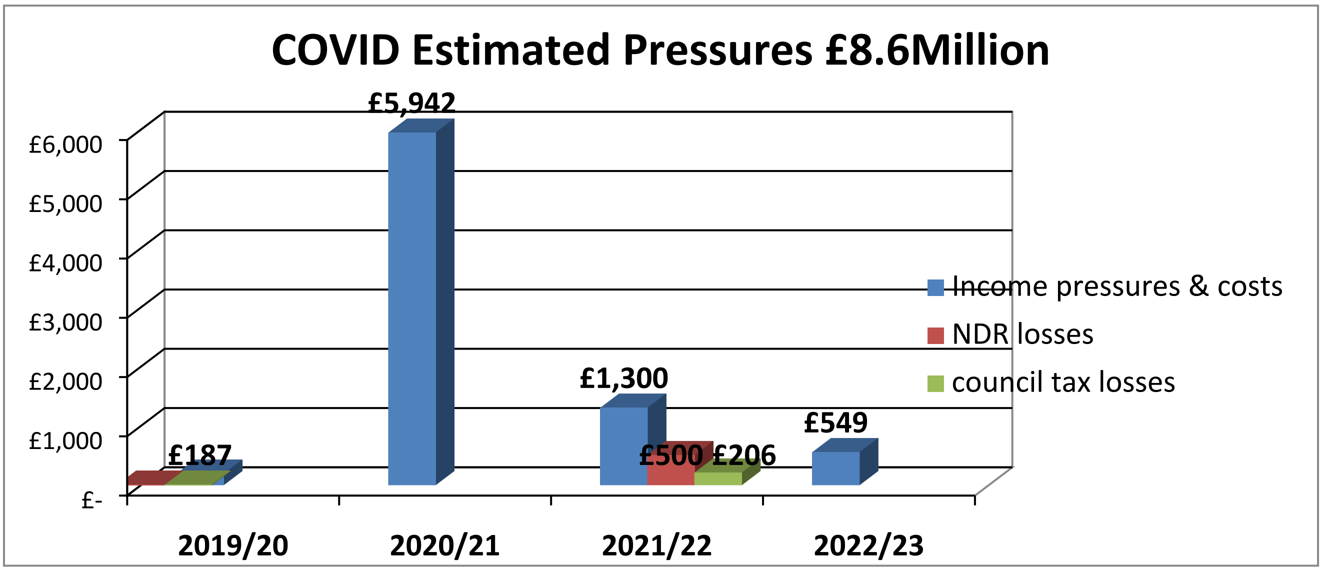
4.2.15 Given the impact COVID-19 has had on the economy, the Chancellor was clear in his July statement that there will need to be **tough choices in other areas of spending at the review**. As part of their preparations for the CSR departments have been asked to identify opportunities to re-prioritise and deliver savings and departments will be required to fulfil a series of conditions in their returns, including providing evidence they are delivering the government's priorities and focussing on delivery. It remains to be seen whether this includes savings from delivery 'devolution' in upper and lower tier local government areas.

4.2.16 In addition to economic uncertainty due to COVID-19, any recession and longer lasting impacts, the economy also may impacted by BREXIT when the UK leaves on the 31 December. Uncertainty in the market may only build in cost for goods, materials and contracts and added complexity for the businesses, depending on the deal or no deal that is agreed.

**Extract from September MTFS**

## 4.5 COVID Budget Pressures

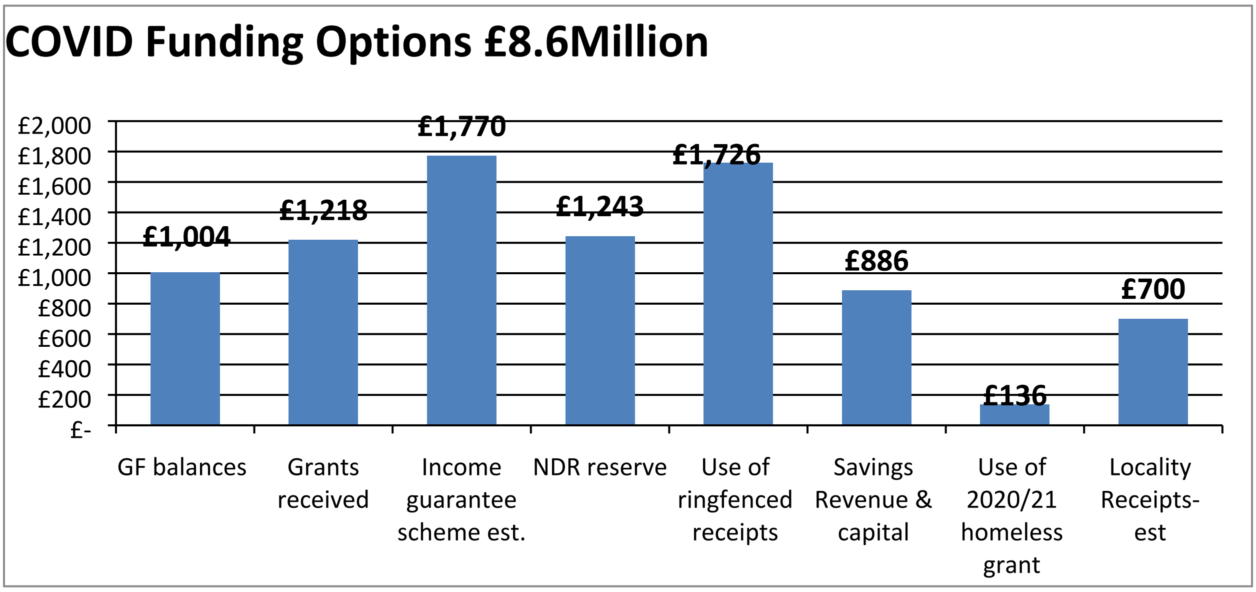
4.5.1 The MTFS contains an update on the projected COVID losses and potential funding. The projected costs are estimated to be £7.7Million for the General Fund and are summarised below.




4.5.2 The 2020/21 losses of £5.9Million include assumptions including costs to support the Council's leisure provider and losses in parking and rent income. The MTFS models **losses of £1.5Million in future years as income losses are sustained beyond 2020/21**, however this is currently difficult to predict and is an acknowledgement of the likely depth of the impact of COVID-19 on the economy.

4.5.3 The 2021/22 costs also assume there will repayments to the Collection Fund for 2020/21 of £500K of NDR losses compared to budget and a further £206K in council tax deficits as a result of higher Council Tax support (CTS caseload in 2020/21 and higher arrears).

4.5.4 The total assumed funding for COVID-19 in the MTFS is summarised in the chart below and this is the basis for the General Fund balances currently included at Appendix A.




4.5.5. This does assume that the Council will receive £1.77Million for the income guarantee scheme. The exact calculation needs to be completed as the government assumes cost reductions will offset losses. The calculation is based on:

- 5% deduction for budget variation
- No income for rental streams
- 75pence in the £ to be paid
- Some deduction for local decisions taken

However this level of funding is not a guarantee and the MTFS may be revised, with the savings target adjusted to reflect a lower level of grant received. The income guarantee form was received 4 September and the final calculation could be £200K lower than currently modelled. Members will be updated when the first submission is made at the end of September.